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SENSITIVE
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DEPT FOR WHA/CEN:CWEBSTER, CASHE, AND JVANTRUMP, WHA/EPSC:AWONG, AND INL/LP:KBROWN AND MAHERN

E.O. 12958: N/A

TAGS: ECON EFIN EINV PGOV PREL CS

SUBJECT: EMBASSY SAN JOSE REQUESTS MERIDA SUPPORT FOR 2009 FINANCIAL ENFORCEMENT PROGRAM

REF: A) SAN JOSE 0277
B) SAN JOSE 0531 (NOTAL)

¶1. (U) This is an ACTION MESSAGE. Please see paragraph 8.

¶2. (SBU) SUMMARY. Costa Rica's unregulated and untaxed gaming industry, legal but unregulated prostitution, and growing narco-trafficking all contribute to an increase in criminal activity; this exposes Costa Rica to transnational cash smuggling and money laundering crimes. Therefore, Embassy San Jose, Treasury's Office of Technical Assistance (OTA), the GOCR's Finance (Hacienda) Ministry and the Central Bank of Costa Rica (BCCR), seek to launch an OTA Financial Enforcement program for Costa Rica before the end of this year. Department funding would be an essential element of this program, because the OTA budgeting process that would consider Treasury funding for Costa Rica will not occur until late 2009 and, if approved, those funds would not become available until CY2010. However, our earlier requests to INL (for program funding) and to WHA and INL (to use FY2009 Merida regional funding) were both turned down, the latter in favor of a DHS program dealing with bulk cash smuggling and money laundering. We would like to request reconsideration of this inexpensive (less than \$150,000) and virtually ready-to-go OTA program (if truly not feasible) and an explanation as to how the DHS program will better help the GOCR address its financial enforcement needs. END SUMMARY.

GOCR FINANCIAL CRIME INTEREST COALESCED IN 2008

¶3. (SBU) In October 2008, the GOCR formally asked OTA for a financial enforcement program. In April 2009, the OTA's Carlos Correa led a team, expert in economic crimes and gambling, on an assessment mission (Ref A). Draft results of the assessment report indicate that OTA agrees that Costa Rica's unregulated and untaxed gaming industry, legal but unregulated prostitution, and growing narco-trafficking all contribute to the increase in criminal activity. The three-way mix of vice -- gambling, sex trade, and drugs -- opens Costa Rica to economic crimes such as cash smuggling, money laundering, and terrorist financing. Couple the three-way vice mix with weak inter-ministerial coordination (vital to thwarting financial crime) and a lax legal environment, and Costa Rica's growing financial crime potential exposes the country to sophisticated transnational crime rooted in drug cartels.

GOCR IS VERY INTERESTED

¶4. (SBU) In April 2009, Hacienda Minister Guillermo Zuniga met with Treasury DAS Larry McDonald and reiterated the GOCR's interest in OTA assistance. In May, Zuniga met with DAS McDonald in San Jose and repeated the request, underscoring the urgent need to start working on the gambling issue. In response, an OTA gambling team visited San Jose in early June for four days of consultations (Ref B). The OTA team counseled the GOCR on the weaknesses of

proposed legislation, and suggested policy and regulation options, including models from other countries. This was an important first step, but more action is needed.

THE TIME IS NOW -- NOT NEXT YEAR

¶15. (SBU) The interest from the GOCR is strong and clear. OTA has an excellent success record with other programs in Costa Rica and wants to continue to make a difference. Now that the Arias Administration has entered its last year, it feels pressed about key issues such as security, and plans to forge ahead with related legislation and reforms. We strongly endorse this approach and believe that certain GOCR agencies -- namely the Hacienda and the Costa Rican Drug Institute (the GOCR equivalent to our DEA) -- can institute effective reform. Given that a receptive and eager team is in place, now is the time to respond.

FUNDING IS THE CHALLENGE

¶16. (SBU) The key variable in launching an OTA Financial Enforcement program in CY2009 is funding. OTA funds are committed for CY2009 (but likely available in CY2010). Therefore, we proposed to use FY2009 Merida regional money (specifically Transnational Crimes, i.e. Bulk Currency Smuggling and Asset Forfeiture) to launch an OTA Financial Enforcement program in Costa Rica in CY2009. After submitting a proposal to use INL program funds (which was turned down), we requested the use of Merida regional funds to launch the OTA Financial Enforcement program. Despite an initial positive response, we learned that funds for Bulk Cash Smuggling and Asset

Forfeiture had already been committed by INL and CEN to DHS.

¶17. (SBU) We understand that INL program funds may be limited, but using FY09 Merida regional funding made eminent sense to us for the following reasons:

-- We have a specific OTA plan ready for CY2009, which would launch this important and high-impact financial enforcement program for less than USD 150,000;

-- Costa Rican counterparts are ready to work on the project;

-- OTA (and we) have confirmed the acute need for assistance to address financial crimes; and

-- an OTA financial enforcement program could be launched in very short order.

ACTION REQUESTS

¶18. (SBU) In light of the above:

-- We request reconsideration of our request to fund the new OTA program with FY2009 regional Merida funding. Again, we are not talking about a large or long-term expenditure; \$150,000 in funding would launch the program in CY2009, with Treasury likely picking up the funding in CY2010;

-- Please explain why it is felt that the DHS program would better support Merida and our Mission Strategic Plan objectives on financial enforcement. Having no information about the DHS program, we are at a loss to provide an informed assessment to Washington;

-- Please provide additional details on the DHS program. How will it address Costa Rica's immediate financial enforcement needs? When would it begin? Are GOCR counterparts identified and ready to act now?

-- If the Merida funds in question are fully committed to DHS, please advise what other Merida sources may support this important financial enforcement program for Costa Rica; and

-- In the future, we would appreciate advance notification if/when potentially available Merida funding is committed to other agencies or programs. We are doing our best to respond to numerous official and informal taskings to keep the Merida information flowing to Washington. However, we cannot do this adequately unless we too are kept informed by Washington. We want to support this very important, Congressionally-backed regional initiative as best as we can.

COMMENT

¶9. (SBU) Though there may be priorities of which we are unaware, we firmly believe that Merida spending must reflect local needs. Although some commonalities exist throughout the Merida countries, local needs define local security threats. An OTA financial enforcement program will help build institutional capacity in a reform-receptive environment. With financial crimes and Costa Rica, we now see a unique confluence of events -- growing security problems and GOCR key players and the OTA ready to move to address them. This is an ideal assistance relationship; we have the chance to meet a local need, instead of forcing a regional solution to meet that need. This is how Merida was constructed in the first place, from the bottom up. We do not want to lose this unique opportunity.

BRENNAN